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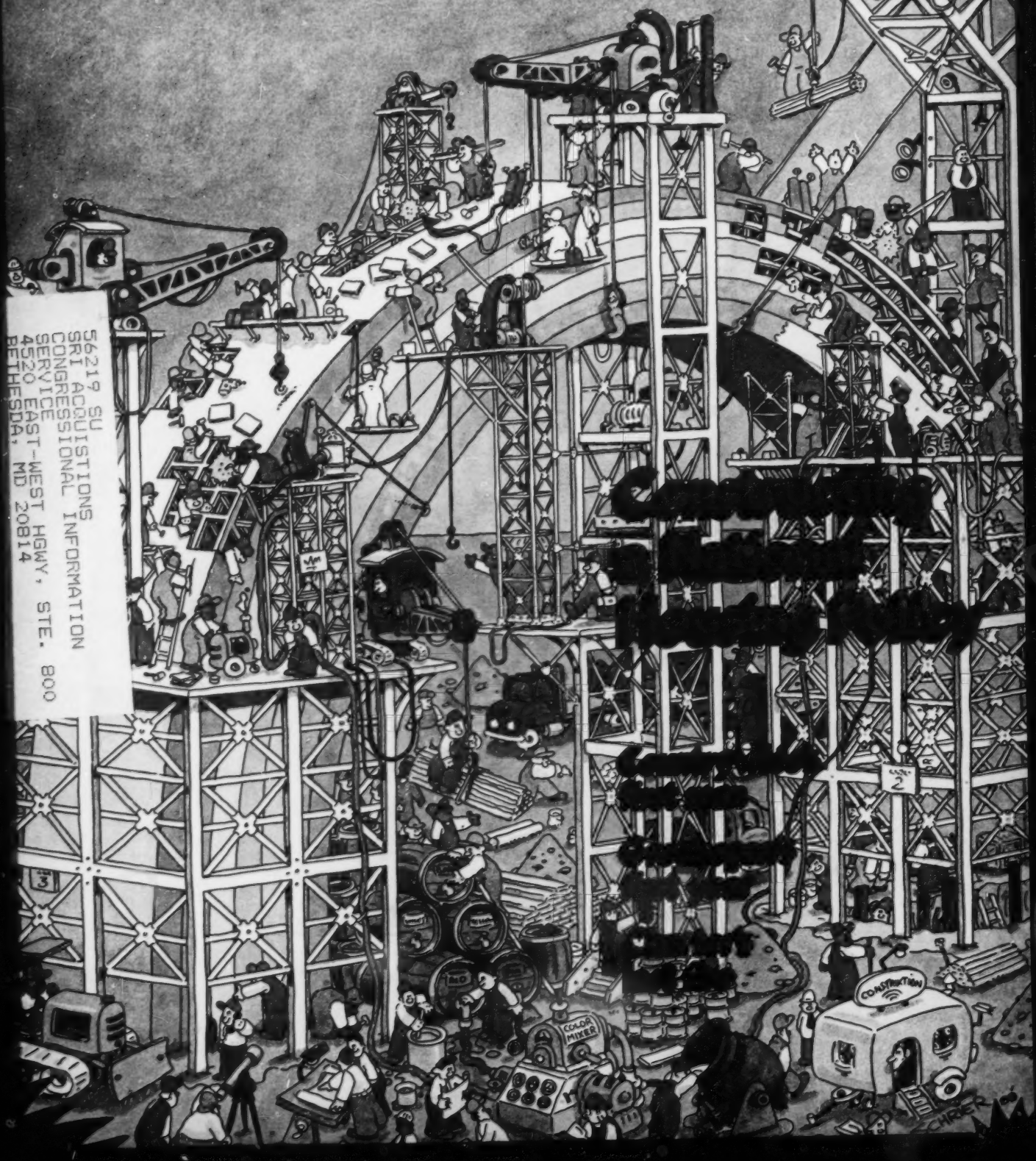
JULY 1988

MORTGAGE BANKING

THE MAGAZINE OF REAL ESTATE FINANCE



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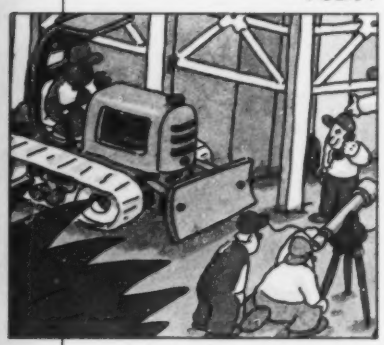
CONTENTS

JULY 1988 VOLUME 48 NUMBER 10

COVER: TOWARD A NATIONAL HOUSING POLICY



There is no question that America needs a housing policy, but when will it come and what form will it take? And who is influencing whom as both parties hold their conventions and the candidates head for November? To find out, ***Mortgage Banking*** talked with key politicians, lobbying groups and staff aides. Conclusion: housing should fare better no matter who wins.

12 Hammering, Sawing, Shimming, Planing *As a major housing bill emerges in the Senate, Democrat Dukakis' plans for housing are fairly activist, but he could be influenced by Jesse Jackson whose thoughts on the subject are not moderate. Republican Bush's mind is not yet made up, but conservatives are trying to do it for him. They probably won't succeed, to the relief of housing industry executives.* By JOSEPH C. DAWSON

20 The Massachusetts Model *With HOP and SHARP, a lot of money and a few smart people, the Bay State is delivering housing for low- and moderate income residents. Here's how.*

Profile **26 That's Angelo** *Countrywide's outspoken president tells how he and David Loeb started the company in 1968, fell just short of closing it down in 1974 then rebuilt it into America's second largest independent mortgage banking enterprise. It took nerve and imagination.* By ROBERT S. ENGLAND

Regulation **38 Happy Anniversary, Alan Greenspan** *The new chairman of the Federal Reserve was appointed a year ago, then faced history's worst stock market crash. Whew! Here's an assessment by MBA's chief economist, himself a former Fed governor.* By LYLE E. GRAMLEY

Legislation **47 House Call for Glass-Steagall** *The relic still hangs on, despite an overwhelming repeal vote in the Senate. It may survive for awhile, with no one quite sure what to do next.* By DAVID W. KENNEDY

Income Property **54 What Is Land Worth?** *Not what you think it is, says the author, if you are basing its value on what the parcel down the street sold for yesterday. Here's a way to judge how much you should pay so you'll make money when the tract is sold to a developer.* By JOHN S. MITCHELL

Public/Private Initiatives **63 Working Partnership** *How the Oakland Planning and Development Corporation worked with Ryan Financial Services, the mortgage banking arm of the big home builder, to turn a school into affordable townhouses in Pittsburgh's inner city.* By LINDA McKENNA

Residential **69 A Rough REO Road** *An update on real estate owned properties, the VA no bid situation and related items that give mortgage bankers headaches.* By H. JANE LEHMAN

Disasters **77 Fire!** *An Arkansas mortgage banker saw sparks and then smoke, then watched as his enterprise burned to the ground. He was back in business in 24 hours, but his lesson is universal.* By JAMES R. SCUDDER

DEPARTMENTS

9 BUSINESS ALERT
80 PEOPLE
87 THE SECONDARY MARKET
89 ECONOMIC TRENDS
98 INDEX TO ADVERTISERS

COVER ILLUSTRATION BY FRED SCHRIER

HOUSING POLICY:
What to Look for Now

Timing is an important part of editing any magazine. An example is our cover report this month, about the bipartisan attempt to draw up a national housing policy. It comes A) just as the Cranston-D'Amato housing bill is scheduled to be introduced in the Senate B) on the eve of both political conventions and C) as the campaign begins to get officially under way.

For those of us in real estate finance, this article is a guide as to what to look for during the next few months as the candidates firm up their positions on housing. A related contribution shows the inner workings of Massachusetts' state housing program, considered one of the best in the nation.

With this issue we are introducing a department called Profile. Our first subject is Countrywide's Angelo Mozilo, who spent a day in his Pasadena office with Washington freelance Robert England. Profile will not necessarily appear every month, but when it does it will serve as a window for viewing our industry through the experience of one company and its CEO.

Alan Greenspan's first anniversary as chairman of the Federal Reserve is upon us, and we thought it would be useful to readers to have an assessment of how he's doing from a man who should know, Lyle Gramley, MBA's chief economist and a former Federal Reserve Board governor. Greenspan, concludes Gramley, has "proven amazingly adept at dealing with formidable problems."

Elsewhere in this issue, we look at what lies ahead in the House for repeal of Glass-Steagall and its implications for mortgage banking. We also analyze the problem of judging the worth of land and how that relates to income property investments. Another article brings readers up to date on the REO picture, with an account of the VA no bid situation. Lastly, we talk with a mortgage banker in North Little Rock, Ark., who was back in business 24 hours after a devastating fire. His lesson, we think, is universal.

Warren Lasko
Executive Vice President

COMING IN AUGUST

The Global Hunt for Money

Fannie Mae opens a new department of international finance, while three mortgage lenders say they will offer adjustable rate mortgages tied to the London Interbank Offered Rate. What is going on here? Well, it's not here, and that's the point. More and more, mortgage bankers are looking toward international markets for money. It's a new and different ARMs race.

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HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS						PERMITS 17,000 ISSUING PLACES					
	Actual			Seasonally Adjusted Annual Rates			Actual			Seasonally Adjusted Annual Rates		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1987												
NOV	119	83	36	1,661	1,180	481	103	72	31	1,459	1,054	405
DEC	85	64	21	1,399	1,086	313	94	66	28	1,372	1,040	332
1988												
JAN	78	59	19	1,382	1,069	313	70	54	16	1,248	988	260
FEB	90	67	23	1,519	1,161	358	93	68	25	1,429	1,078	351
MAR	131	106	25	1,554	1,237	317	140	107	33	1,476	1,110	366
APR$_p$	**152**	**112**	**40**	**1,561**	**1,153**	**408**	**135**	**101**	**34**	**1,416**	**1,032**	**384**
1987 TOTAL	1,620	1,211	409				1,535	1,114	421			
1986 TOTAL	1,805	1,263	542				1,769	1,185	584			
4 MONTHS												
1988	451	345	106				439	330	109			
1987	509	383	126				513	373	140			
1986	562	380	182				562	380	182			
1985	521	354	167				540	358	182			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS								PERMITS 17,000 ISSUING PLACES							
	Actual				Seasonally Adjusted Annual Rates				Actual				Seasonally Adjusted Annual Rates			
	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West	North East	Mid-West	South	West
1987																
NOV	22	25	45	27	269	313	648	431	19	19	38	25	265	257	546	391
DEC	13	14	37	22	222	281	576	320	18	14	35	27	261	240	490	381
1988																
JAN	14	8	32	24	306	226	463	387	12	8	29	21	264	230	420	334
FEB	12	11	41	26	307	259	593	360	13	11	43	26	258	262	553	356
MAR	22	19	52	38	291	268	563	432	26	24	54	37	306	276	525	369
APR$_p$	**24**	**31**	**59**	**37**	**265**	**328**	**592**	**376**	**24**	**27**	**46**	**38**	**257**	**264**	**498**	**397**
1987 TOTAL	269	298	634	420					272	282	575	406				
1986 TOTAL	294	296	733	483					283	290	687	510				
4 MONTHS																
1988	73	68	185	125					75	71	172	121				
1987	73	82	211	143					83	87	203	141				
1986	76	74	257	154					75	77	250	163				
1985	59	54	261	148					58	51	237	147				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands) EXISTING HOUSES[1] Sold	NEW HOMES Sold	NEW HOMES Available For Sale	NEW HOMES Months Supply at Current Rate	VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in billions) Seasonally Adjusted Annual Rate Total	1 Unit	2+ Units	Non-res.	CONSTRUCTION STATUS (Units in thousands) Seasonally Adjusted Annual Rate Under Construction Total	1-4 Units	5+ Units	Completions Total	1-4 Units	5+ Units
1987														
NOV	241	43	365	7.1	237.7	118.6	23.8	95.3	1,042	668	374	130	98	32
DEC	220	37	370	7.6	236.1	118.0	25.1	93.0	1,016	659	357	155	112	43
1988														
JAN	191	43	366	7.7	229.9	115.7	23.1	91.1	1,008	654	354	110	82	28
FEB	220	55	364	6.9	229.1	114.9	22.1	92.1	983	636	347	100	73	27
MAR	303	67	368	7.0	230.6	116.8	21.3	92.5	999	656	343	121	86	35.
APR$_p$	**312**	**69**	**365**	**6.6**	**233.1**	**117.7**	**21.0**	**94.4**	**1,002**	**661**	**341**	**123**	**85**	**38**
1987 TOTAL	3,520	671										1,669	1,194	475
1986 TOTAL	3,565	750										1,756	1,206	550
4 MONTHS														
1988	1,026	234										453	325	128
1987	1,113	257										516	348	168
1986	1,044	288										483	325	158
1985	928	231										461	307	154

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Unit Type
(Dollars in millions)

YEAR AND MONTH	TOTAL Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.	1-4 UNITS Total	Mtg. Bankers[3]	S&Ls	Banks[2]	Life Cos.
1987										
AUG	$49,197	$6,760	$16,746	$22,655	$3,036	$34,025	$6,558	$14,192	$13,031	$244
SEP	50,316	7,526	16,761	22,921	3,108	32,472	7,070	13,595	11,617	190
OCT	49,520	7,387	16,719	21,830	3,584	31,286	6,819	13,647	10,604	216
NOV	43,464	5,678	13,708	20,552	3,526	26,461	5,450	11,378	9,411	222
DEC	53,124	6,794	16,617	24,613	5,100	29,492	6,582	12,238	10,505	167
1988										
JAN$_p$	**36,376**	**5,919**	**10,683**	**18,765**	**1,009**	**21,175**	**5,742**	**8,327**	**7,038**	**68**
1987 TOTAL	648,148	115,373	210,358	286,789	35,628	445,434	110,093	173,822	158,257	3,262
1986 TOTAL	633,959	142,884	218,118	235,514	37,443	450,232	131,628	176,073	138,717	3,814
1 MONTH										
1988	36,376	5,919	10,683	18,765	1,009	21,175	5,742	8,327	7,038	68
1987	44,937	9,748	12,944	20,718	1,527	33,107	8,791	10,478	13,617	221
1986	24,606	5,488	10,512	7,228	1,378	16,440	5,168	7,893	3,225	154
1985	15,048	4,004	2,787	7,323	934	8,441	3,894	572	3,927	48

LENDER ACTIVITY (Cont'd.)

LONG-TERM MORTGAGE LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS				NONRESIDENTIAL			
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
AUG	$2,684	$ 80	$1,376	$989	$239	$12,488	$122	$1,178	$ 8,635	$2,553
SEP	2,799	236	1,420	765	378	15,045	220	1,746	10,539	2,540
OCT	3,079	383	1,495	835	366	15,155	185	1,577	10,391	3,002
NOV	2,508	151	1,022	949	386	14,495	77	1,308	10,192	2,918
DEC	3,503	97	1,986	928	492	20,129	115	2,393	13,180	4,441
1988										
JAN$_p$	**2,120**	**160**	**1,171**	**710**	**79**	**13,081**	**17**	**1,185**	**11,017**	**862**
1987 TOTAL	36,735	2,409	17,719	12,887	3,720	165,979	2,871	18,817	115,645	28,646
1986 TOTAL	40,449	7,172	19,877	9,677	3,723	143,278	4,084	22,168	87,120	29,906
1 MONTH										
1988	2,120	160	1,171	710	79	13,081	17	1,185	11,017	862
1987	2,895	529	1,341	893	132	8,935	428	1,125	6,208	1,174
1986	1,784	86	1,218	427	53	6,382	234	1,401	3,576	1,171
1985	1,228	36	691	399	102	5,379	74	1,524	2,997	784

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers[9]	S&Ls	Banks[2]	Life Cos.
1987										
AUG	$34,176	$ 5,713	$19,056	$7,461	$1,946	$131,700	$13,206	$53,644	$47,210	$17,640
SEP	37,287	7,705	18,912	8,610	2,060	132,131	15,834	50,892	48,965	16,440
OCT	39,826	10,964	18,768	7,379	2,715	126,818	13,150	50,143	47,170	16,355
NOV	29,594	4,604	15,454	6,675	2,861	126,410	12,484	47,784	49,783	16,359
DEC	27,463	2,907	15,561	6,279	2,716	112,321	6,711	44,927	46,795	13,888
1988										
JAN$_p$	**28,469**	**7,271**	**13,929**	**5,737**	**1,532**	**106,984**	**8,111**	**41,990**	**43,634**	**13,249**
1987 TOTAL	475,252	96,534	235,457	110,306	32,955					
1986 TOTAL	532,999	128,480	231,915	133,504	39,100					
1 MONTH										
1988	28,469	7,271	13,929	5,737	1,532					
1987	29,528	7,044	14,068	6,691	1,725					
1986	26,049	7,695	12,913	3,000	2,441					
1985	17,354	2,798	9,207	3,756	1,593					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1987												
NOV	119	49	21	49	131	$ 9,272	67	$4,093	26	$1,883	38	$3,296
DEC	108	48	16	44	122	8,603	66	3,987	21	1,511	35	3,105
1988												
JAN	110	58	14	38	119	8,246	74	4,453	16	1,143	29	2,650
FEB	139	84	17	38	103	7,271	56	3,351	20	1,503	27	2,417
MAR	175	109	15	51	98	7,036	49	2,927	19	1,381	30	2,728
APR$_p$	**165**	**93**	**14**	**58**	**88**	**6,591**	**42**	**2,508**	**14**	**1,039**	**32**	**3,044**
1987 TOTAL	2,341	1,211	409	721	2,278	159,373	1,315	81,553	452	33,315	511	44,505
1986 TOTAL	3,279	1,907	450	922	1,853	127,758	921	56,901	346	24,719	586	46,138
4 MONTHS												
1988	589	344	60	185	408	29,144	221	13,239	69	5,066	118	10,839
1987	1,052	628	182	242	816	56,322	475	29,403	183	13,408	158	13,511
1986	1,099	747	113	239	461	30,959	228	13,852	78	5,468	155	11,639
1985	636	246	65	325	390	25,041	115	6,569	51	3,360	224	15,112

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC* Comm. to Sell	FHLMC* Comm. to Buy	FHLMC* Mtg. Purc.	FHLMC* Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1987										
NOV	$2,899	$1,297	$134,633	$2,702	$2,408	$4,271	$2,979	$2,742	$4,636	$4,685
DEC	3,115	3,747	139,960	6,374	2,123	−373*	3,261	3,201	3,644	4,696
1988										
JAN	2,254	1,267	140,522	1,683	2,096	3,867	2,168	1,832	1,651	4,348
FEB	2,516	2,629	142,797	3,190	1,869	4,911	3,293	2,414	3,694	3,142
MAR	3,823	2,776	145,242	3,352	2,973	4,262	2,932	2,312	3,458	3,106
APR$_p$	**2,555**	**2,409**	**149,569**	**5,444**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**4,820**	**3,315**
1987 TOTAL	25,415	20,531	—	63,230	n.a.	n.a.	n.a.	n.a.	116,611	96,983
1986 TOTAL	32,987	30,826	—	60,566	106,563	136,179	103,474	102,443	152,911	98,169
4 MONTHS										
1988	11,148	9,081	—	13,699	n.a.	n.a.	n.a.	n.a.	13,623	13,911
1987	7,873	5,877	—	22,678	34,819	43,272	35,082	35,056	51,523	42,296
1986	9,584	5,388	—	12,037	25,842	28,346	19,827	19,061	44,265	22,263
1985	6,751	7,273	—	5,676	14,644	15,480	10,877	9,497	14,742	10,684

*In December, master commitment conversions exceeded new master & regular commitments taken.

INTEREST RATES AND YIELDS

1- to 4-UNIT MORTGAGES

YEAR AND MONTH	FHA OPINION SURVEY FHA New[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA 1 Yr. ARM (1%/Yr.)	FNMA FRM Conv.
1987							
NOV	10.76%	10.59%	10.58%	9.30%	9.25%	9.06%	10.345%
DEC	10.63	10.52	10.52	9.15	9.20	10.15	9.613
1988							
JAN	10.17	10.09	10.10	9.13	9.25	8.93	10.010
FEB	9.86	9.80	9.81	9.12	9.16	8.62	9.642
MAR	10.28	9.99	10.01	9.15	9.14	8.60	9.737
APR	10.46	10.19	10.19	9.13	9.21	8.86	10.035
MAY$_p$	**n.a.**	**n.a.**	**n.a.**	**8.95**	**9.23**	**9.24**	**10.283**

CURRENT SECONDARY MARKET YIELDS

SELECTED SECURITIES

YEAR AND MONTH	GNMA[5]	FNMA[5]	FHLMC[6]	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1987							
DEC	10.04	9.96	9.92	10.42	8.99	6.36	7.61
1988							
JAN	9.90	9.78	9.68	10.05	8.67	6.25	6.87
FEB	9.29	9.27	9.23	9.75	8.21	5.93	6.58
MAR	9.39	9.33	9.29	9.91	8.37	5.91	6.62
APR	9.72	9.62	9.59	10.23	8.72	6.21	6.86
MAY	**10.01**	**10.56**	**10.25**	**10.61**	**9.09**	**6.53**	**7.19**

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1987				
NOV	37	117	100	96
DEC	21	105	97	93
1988				
JAN	12	123	111	101
FEB	11	108	106	102
MAR	37	102	96	92
APR	23	100	90	87
MAY	**n.a.**	**92**	**147**	**116**

NA—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

[9] 1985 data on mortgage bankers obtained from the HUD Survey of Mortgage Lending Activity.